MANUFACTURERS HANOVER

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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

The Deutschemark Falls From Favor

The economic policies of Germany in the early 1990s are quite similar to those of the United States in the early 1980s: High interest rates resulting from a tight monetary policy and an extremely expansionary fiscal policy. This combination, along with robust economic growth in western Germany, was supposed to do for the Deutschemark what it did for the dollar a decade ago, namely, make it the most sought after currency in the world.

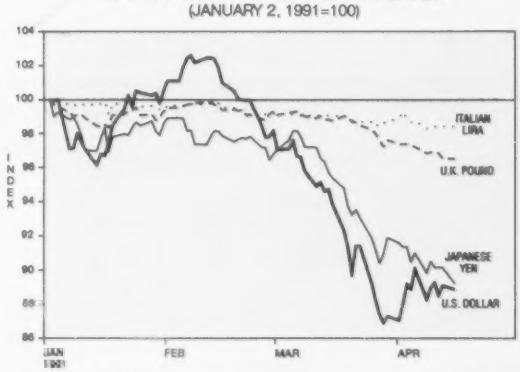
For a while, this seemed to be happening. Not long ago, the Deutschemark had strengthened so vigorously against the other European currencies that many foreign exchange traders were expecting a revaluation of the mark within the European Monetary System (EMS) by early this year. Against the dollar, the Deutschemark surged to a record high of around 1.45 marks per dollar in mid-February, prompting many currency analysts to forecast a mark per dollar exchange rate of 1.35 by June. Then, suddenly, the Deutschemark reversed direction, plunging by almost 14 percent against the U.S. currency in barely two months.

What went wrong? Although the euphoria over the end of the Gulf War was the spark that triggered the rebound of the dollar, it can't fully explain the fall from favor of the Deutschemark. Since mid-February, the mark has also plummeted by a hefty ten percent against the Japanese yen. Even more significant has been the considerable weakening of the mark against most of the other EMS currencies over the past two months. Since mid-February, for example, the Deutschemark has fallen by almost two percent against the Italian lira and by nearly four percent against the U.K. pound, while slipping to the lower half of its permitted trading ranges against most of the EMS currencies (see chart). And this weakening occurred over a period in which the central banks in such EMS member countries as the United Kingdom, Spain, France, Denmark, Belgium and Ireland lowered their interest rates.

Economic Crisis In Eastern Germany

While there are many reasons for the Deutschemark's sudden fall from favor, probably the most significant factor weighing on the currency is the severe economic and social crisis taking place in what was once East Germany.

DEUTSCHEMARK VS. SELECTED CURRENCIES
(JANUARY 2, 1991=100)



Source: MH

Although the economic transformation of the east was billed as "Germany's second economic miracle", the introduction of free market principles is turning out to be a much greater challenge than was the case in western Germany after the end of World War II. Four decades of socialist command have left the eastern states poorly prepared for the sudden shock of free market competition.

What's more, although the generous terms of monetary union were considered necessary to stem the mass exodus of East Germans to the west last July, they increased wage costs in eastern Germany to uncompetitive levels. To make matters worse, the freedom of workers to migrate west has placed further upward pressure on wages in the east. Since monetary union last July, wages have risen by an estimated 50 to 80 percent in many industries in the east. Indeed, recent pay settlements suggest that wages could rise to two-thirds of those in western Germany by the end of the year.

At the same time that wages are soaring, productivity in the east is plunging. Reflecting a strong aversion to their own products and a lack of "hard currency" by the Soviet Union and Eastern Europe, East Germany's traditional export markets, industrial production has fallen by over 60 percent during the past nine months. The jump in wages and drop in produc-

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tion, in turn, have led to a surge in bankruptcies and unemployment. Around one-third of the labor force in the east is currently without a full time job and that ratio is expected to reach one-in-two by next year.

The collapse of the eastern German economy has, in turn, led to mass demonstrations, public feuding between the Bundesbank and the German Finance Ministry over who is to blame for the eastern German "disaster", calls for Chancellor Kohl's resignation only four months after his landslide victory and the tragic murder earlier this month of Detlev Rohwedder, the chief of the Treuhand privatization agency, viewed as the scapegoat for eastern Germany's economic collapse.

Western Germany Has Problems, Too

As if the problems in the east weren't enough to place downward pressure on the Deutschemark, western Germany's economic prospects are also starting to dim. For one thing, if current trends continue, the once hefty German current account surplus could slip into the red this year. Reflecting a surge in import demand from the east and an economic slowdown in western Germany's major export markets, Germany posted a current account deficit of almost four billion marks during the first two

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/3/91)	200,901	- 680	- 15,966
New York City (4/10/91)	32,375	+ 216	- 7,213
Commercial Paper (4/10/91)	557,333	- 2,614	+ 17,008

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/3/91)	320,682	+ 1,081	- 3,413
New York City (4/10/91)	56,502	- 1,007	- 1,398

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/3/91)	1,047,915	- 564	+ 43,788
New York City (4/10/91)	173,808	- 361	- 5,599

Financial Markets

	Friday 4/19/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.91%	+ .26	- 2.03
180-Day Bills†	6.00	+ .16	- 2.23
Longest Bills†	6.27	+ .17	- 2.14
Recent Issues:			
7 ⅛s 3/31/93	7.00	+ .15	
7¾s 3/31/96	7.76	+ .12	
7¾s 2/15/01	8.18	+ .19	
7⅞s 2/15/21	8.21	+ .03	
Municipals:			
Bond Buyer—20 Bond Index* (4/18/91)	6.98%	- .04	- .41
Blue List Total ($ Million)	$1,215	- $ 73	- $ 325
30-Day Visible Supply ($ Million)	$2,599	+ $547	+$1,049
Total	$3,814	+ $474	+$ 724
Corporates:			
Moody's Aa Composite (4/18/91)	9.10%	- .03	+ 1.43
30-Day Visible Supply ($ Million)	$ 260	- $140	- $ 115
Stocks:			
Dow-Jones Averages:			
Industrials	2,965.59	+ 44.80	+270.76
Transportation	1,171.55	+ 42.67	+ 16.67
Utilities	212.84	- 5.34	+ 4.72
65 Stocks	1,058.29	+ 15.92	+ 60.76
N.Y.S.E. Composite Index	210.23	+ 2.15	+ 26.17
N.Y.S.E. Avg. Daily Vol. for Week (000's)	207,682	+ 33,352	+62,296

*34% Taxable equivalent 10.58%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/19/91	Week Ago
Overnight	5.94%	5.50%
1 month	6.06	5.88
3 month	6.13	5.94
6 month	6.31	6.13
1 year	6.75	6.59

FOREIGN EXCHANGE SPOT RATES New York Opening (4/19/91)	Currency Per U.S. $	Week Ago
Belgium	35.41	34.35
Canada	1.1548	1.1505
France	5.8095	5.6435
Germany	1.7220	1.6708
Italy	1271.00	1236.00
Japan	137.60	135.70
Mexico	2993.80	2991.00
Netherlands	1.9395	1.8825
South Korea	711.17	712.06
Switzerland	1.4625	1.4300
Taiwan	26.92	26.78
U.K.*	1.7393	1.7940

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/19/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.3%	+1.1%

months of this year compared with a surplus of nearly 19 billion marks a year earlier. For another, Chancellor Kohl's reversal of his no-tax pledge means higher inflation (some taxes will be included in the Cost of Living Index) and slower growth in western Germany later this year and in 1992.

External factors are also weighing on the Deutschemark. Political unrest in the Soviet Union has made investors nervous because of the geographic proximity and economic ties between the two countries. For example, 11 billion marks out of the Soviet Union's total 43 billion mark foreign debt is owed to German banks.

While the Deutschemark should maintain a downward bias in the coming months, its path will probably not be smooth. In fact, disappointing data regarding the expected U.S. economic recovery have already led to a modest appreciation of the mark versus the dollar in recent days. Market fears that the Bundesbank may raise interest rates to support its sinking currency could also give the Deutschemark a boost from time to time. Even if the Bundesbank does raise interest rates, any mark recovery will probably be only temporary, however, given the extent of the economic, social and political problems surrounding the currency.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/17/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	247.051	- 1.820	+14.906
Loans to Depository Inst.	.272	+ .098	- 1.479
Float	.845	- .043	- .724
Total Reserve Bank Credit	284.882	- 1.634	+ 9.313
Treasury Deposits with Federal Reserve Banks	3.780	- 1.015	- 1.201
Currency in Circulation	288.300	+ .103	+27.358
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	242.837	+ 3.321	+19.372
Member Bank Reserves:	**4/17/91**		
Total Reserves Held	51.123	+ 2.196	- 10.770
Excess (Deficiency)	.907	- .448	+ .242
Net Free Reserves	.760	- .445	+ .301

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (4/8/91)	841.4	+ 8.7	+ 4.8
M2 (4/8/91)	3,388.0	+ 6.4	+ 3.5
M3 (4/8/91)	4,173.0	+ 5.5	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/19/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.80%	5.78%	5.96%
* Federal Agencies	6.20	6.35	6.60
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.66	6.97
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.09	6.25	6.75

‡ Finance Company Paper–Prime

5- 14 days	5.95%
15- 29 days	6.00
30- 59 days	6.00
60- 89 days	5.93
90-179 days	6.00
180-239 days	6.00
240-270 days	6.00

‡* Bankers' Acceptances

May	6.00%
Jun.	6.00
Jul.	6.00
Aug.	6.00
Sep.	6.00
Oct.	6.00

‡ Industrial Paper–Prime

30- 89 days	6.00%
90-120 days	6.00

†Federal Funds Effective Rate 5.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,527	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,153	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 1.6	1.4	0.3
Change in Consumer Prices*	Mar '91 n	- 1.2%	2.4%	4.8%
Change in MH Cost of Living Index*	Mar '91 n	2.4%	7.2%	6.0%
Change in Producer Prices*	Mar '91 n	- 3.6%	- 7.2%	- 1.2%
Civilian Employment (Thousands of Persons) †	Mar '91	116,754	116,918	118,235
Unemployment as % of Civilian Labor Force †	Mar '91	6.8%	6.5%	5.3%
Personal Income*	Feb '91	$ 4,736	$ 4,724	$ 4,562
Leading Indicators Composite Index (1967=100) †	Feb '91	140.5	139.0	144.1
Industrial Production Index (1977=100) †	Mar '91 n	105.3	105.7	108.9
Net Change in Consumer Installment Credit †	Feb '91	- $ 2.30	- $ 2.26	$ 0.04
U.S. Merchandise Trade Balance †	Feb '91 n	- $ 5.33	- $ 7.16r	- $ 7.10
Plant and Equipment Expenditures*	2nd Q'91 n	$ 547.9 (a)	$ 540.8 (a)r	$ 535.5
Private Housing Starts (Thousands of Units)*	Mar '91 n	901	993r	1,298
New Construction Expenditures*	Feb '91	$ 395.1	$ 395.4	$ 455.6
Total Business Inventories †	Feb '91 n	$ 829.8	$ 831.4r	$ 810.0r
Total Business Sales †	Feb '91 n	$ 529.6	$ 527.1r	$ 536.0

*Seasonally adjusted annual rate. †Seasonally adjusted.

n-Newly reported figure. r-Revised. a-Anticipated.

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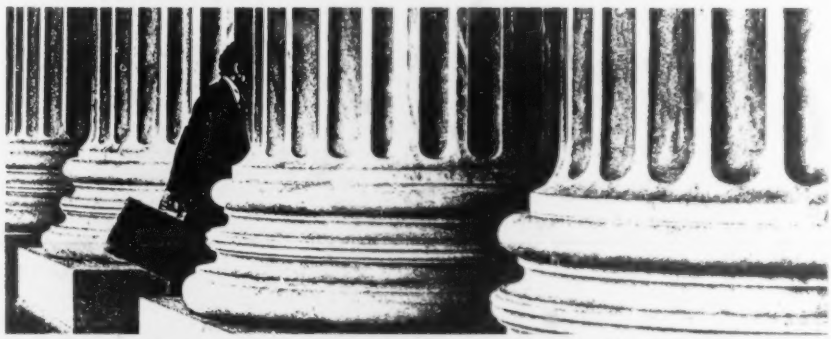
Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

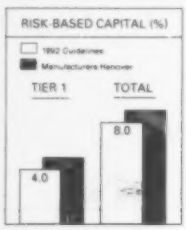
We exceeded these standards 2 years ago.

At year-end 1990 Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.



Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.

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